

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

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Lineville-Clio Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 election)		
David Brennecke	President	2006
Loris Nickell	Vice President	2007
Judy Shields	Board Member	2007
Virginia Clow	Board Member	2008
Cherlyn Hullinger	Board Member	2008
Board of Education (After September 2006 election)		
David Brennecke	President	2009
Loris Nickell	Vice President	2007
Judy Shields	Board Member	2007
Virginia Clow	Board Member	2008
Cherlyn Hullinger	Board Member	2008
School Officials		
Robert McCurdy	Superintendent	2007
Teresa Comer-Joki	District Secretary/ Treasurer and Business Manager (Resigned)	2007
Cheryl Porter	District Secretary/ Treasurer and Business Manager (Appointed)	2007
Monty Franklin	Attorney	2007

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(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Lineville-Clio Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lineville-Clio Community School District, Lineville-Clio Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Lineville-Clio Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 4, 2008 on our consideration of the Lineville-Clio Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lineville-Clio Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for year ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for two years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

March 4, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lineville-Clio Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$1,837,138 in fiscal 2006 to \$1,581,985 in fiscal 2007, while General Fund expenditures decreased from \$1,773,937 in fiscal 2006 to \$1,660,685 in fiscal 2007. This resulted in a decrease in the District's General Fund balance of \$133,585 in fiscal 2006 to \$54,885 in fiscal 2007, a 58.91% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in federal grant revenue in fiscal 2007. The decrease in expenditures was due primarily to decrease expenses tied to the federal grant.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lineville-Clio Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Lineville-Clio Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Lineville-Clio Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Lineville-Clio Community School District Annual Financial Report

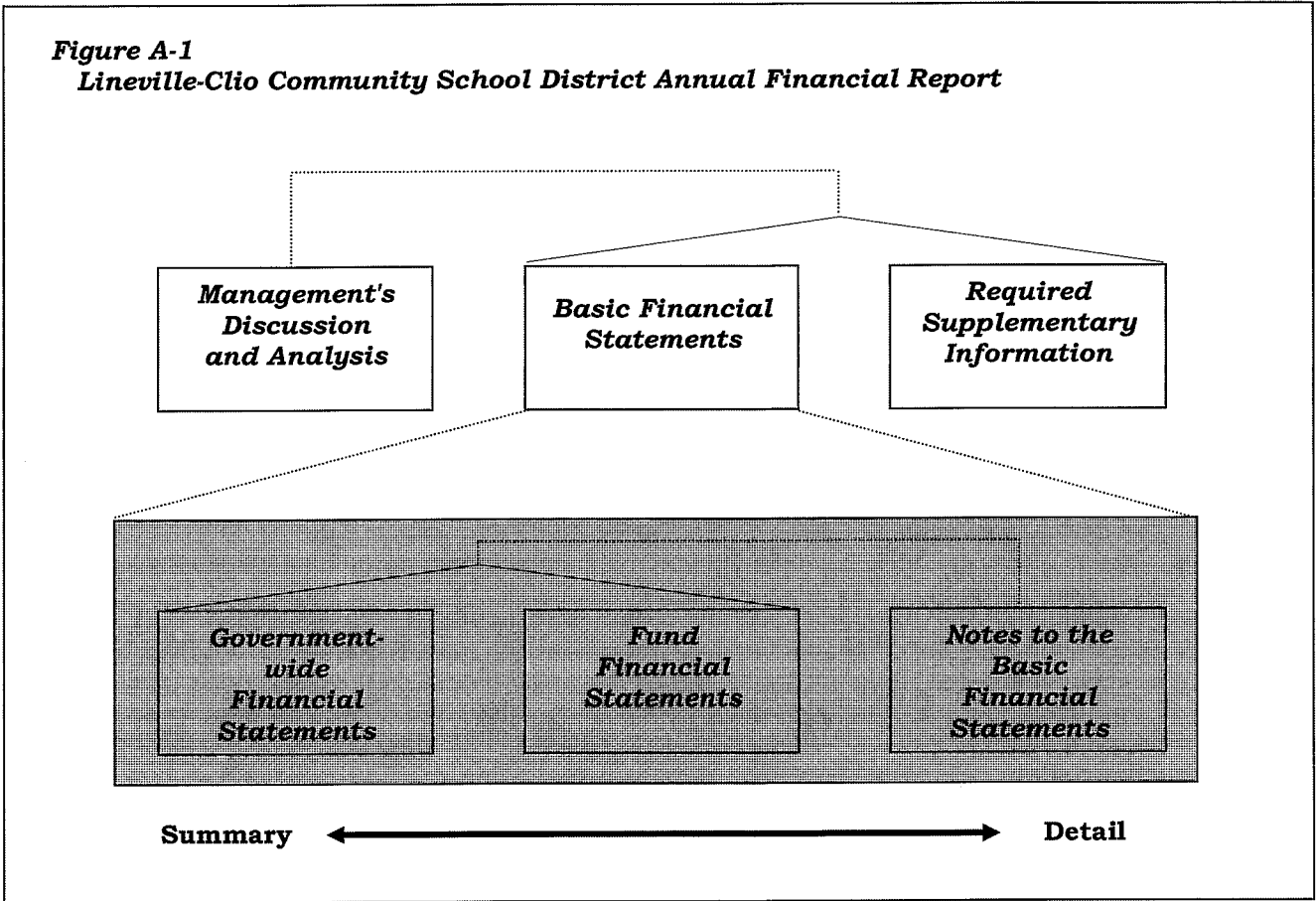


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. The District's internal service fund, one type of proprietary fund, is the same as the governmental activities, but provides more detail and additional information such as cash flows. The District currently has one internal service fund, the Health Insurance Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 1,107,978	1,176,380	3,411	607	1,111,389	1,176,987	-5.57%
Capital assets	953,329	958,912	1,157	456	954,486	959,368	-0.51%
Total assets	2,061,307	2,135,292	4,568	1,063	2,065,875	2,136,355	-3.30%
Long-term obligations	861,774	875,458	0	0	861,774	875,458	-1.56%
Other liabilities	881,188	910,529	5,358	5,336	886,546	915,865	-3.20%
Total liabilities	1,742,962	1,785,987	5,358	5,336	1,748,320	1,791,323	-2.40%
Net assets:							
Investment in capital assets, net of related debt	91,555	133,840	1,157	456	92,712	134,296	-30.96%
Restricted	158,122	65,568	0	0	158,122	65,568	141.16%
Unrestricted	68,668	149,897	(1,947)	(4,729)	66,721	145,168	54.04%
Total net assets	\$ 318,345	349,305	(790)	(4,273)	317,555	345,032	-7.96%

The District's combined net assets decreased by 7.96%, or \$27,477 over the prior year. The largest portion of the District's net assets is the invested in capital assets less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$92,554, or 141.16% over the prior year. The increase was primarily a result of reclassifying the Capital Projects Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$78,447, or 54.04%. This decrease in unrestricted net assets was a result of the decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 84,631	130,139	22,653	21,963	107,284	152,102	-29.47%
Operating grants and contributions and restricted interest	870,743	1,006,875	32,625	24,497	903,368	1,031,372	-12.41%
General revenues:							
Property tax	433,667	421,930	0	0	433,667	421,930	2.78%
Income surtax	25,230	38,212	0	0	25,230	38,212	-33.97%
Local option sales and services tax	49,855	68,815	0	0	49,855	68,815	-27.55%
Unrestricted state grants	266,493	258,353	0	0	266,493	258,353	3.15%
Unrestricted investment earnings	21,988	26,438	68	63	22,056	26,501	-16.77%
Other general revenues	13,024	163,960	0	0	13,024	163,960	-92.06%
Total revenues	1,765,631	2,114,722	55,346	46,523	1,820,977	2,161,245	-15.74%
Program expenses:							
Governmental activities:							
Instruction	740,925	704,613	0	0	740,925	704,613	5.15%
Support services	627,384	735,440	341	252	627,725	735,692	-14.68%
Non-instructional programs	342,048	395,183	51,522	49,100	393,570	444,283	-11.41%
Other expenses	86,234	86,327	0	0	86,234	86,327	-0.11%
Total expenses	1,796,591	1,921,563	51,863	49,352	1,848,454	1,970,915	-6.21%
Change in net assets	(30,960)	193,159	3,483	(2,829)	(27,477)	190,330	114.44%
Beginning net assets	349,305	156,146	(4,273)	(1,444)	345,032	154,702	123.03%
Ending net assets	\$ 318,345	349,305	(790)	(4,273)	317,555	345,032	-7.96%

In fiscal 2007, property tax, income surtax, local option sales and services tax and unrestricted state grants account for 43.91% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.88% of the revenue and transfers from business-type activities.

The District's total revenues were \$1,820,977 of which \$1,765,631 was for governmental activities and \$55,346 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 15.74% decrease in revenues and a 6.21% decrease in expenses.

Governmental Activities

Revenues for governmental activities were \$1,765,631 and expenses were \$1,796,591.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 740,925	704,613	5.15%	370,444	282,554	31.11%
Support services	627,384	735,440	-14.69%	627,384	735,440	-14.69%
Non-instructional programs	342,048	395,183	100.00%	(213,495)	(290,980)	-26.63%
Other expenses	86,234	86,327	-0.11%	56,884	57,535	-1.13%
Totals	<u>\$ 1,796,591</u>	<u>1,921,563</u>	<u>-6.50%</u>	<u>841,217</u>	<u>784,549</u>	<u>7.22%</u>

- The cost financed by users of the District's programs was \$84,631.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$870,743.
- The net cost of governmental activities was financed with \$433,667 in property tax, \$25,230 in income surtax, \$49,855 in local option sales and services tax, \$266,493 in unrestricted state grants, \$21,988 in unrestricted investment earnings and \$13,024 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$55,346 and expenses were \$51,863. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Lineville-Clio Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$208,615 below last year's ending fund balances of a \$250,475. However, the primary reason for the decrease in combined fund balances in fiscal 2007 is due to the decrease in the General Fund balance.

Governmental Fund Highlights

- The District's decrease in General Fund financial position is the product of many factors. Growth during the year in local tax and state grants was offset by decreases in other local sources and federal grants resulting with a decrease in revenues. The decrease in District's expenditures was due to increases in negotiated salaries and benefits which were reduced by expenses tied to the federal award received during the year, resulting with a decrease in expenditures. The District had more expenditures than revenues causing the General Fund balance to decrease by \$78,700.
- The Capital Projects Fund balance increased from \$39,465 at June 30, 2006 to \$61,923 at June 30, 2007. This increase was due in part to the local option sales and services tax received during the fiscal year was less than the debt payment transfers.
- The Debt Service Fund balance decreased from \$13,584 at June 30, 2006 to \$1,008 at June 30, 2007. This decrease was due to the decrease in the transfer amount from the Capital

Projects Fund to provide debt relief in assisting the repayment of the General Obligation Bonds.

Proprietary Fund Highlights

- The School Nutrition Fund net assets increased from a deficit \$4,273 at June 30, 2006 to a deficit \$790 at June 30, 2007, representing an increase of 122.68%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$283,556 less than budgeted revenues, a variance of 13.49%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$954,486, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of .51% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$42,587.

The original cost of the District's capital assets was \$1,107,862. Governmental funds account for \$1,104,530 with the remainder of \$3,322 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$903,019 at June 30, 2006, compared to \$884,206 reported at June 30, 2007. This decrease resulted from the current year depreciation expense.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business-type		Total		Total Change
	Activities		Activities		School District		
	2007	2006	2006	2006	2006	2006	
Buildings	\$ 884,206	903,019	0	0	884,206	903,019	-2.08%
Machinery and equipment	69,123	55,893	1,157	456	70,280	56,349	24.72%
Total	\$ 953,329	958,912	1,157	456	954,486	959,368	-0.51%

Long Term Debt

At year-end, the District had \$861,774 in general obligation and other long-term debt outstanding. This represents a decrease of 1.56%. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2007	2006	Change
General obligation bonds	\$ 835,000	875,000	-4.57%
Bus lease	26,774	0	100.00%
Compensated absences	0	458	-100.00%
Totals	<u>\$ 861,774</u>	<u>875,458</u>	<u>-1.56%</u>

The District had \$835,000 in general obligation bonds outstanding at June 30, 2007.

The District had bus lease payable of \$26,774 at June 30, 2007 payable from the Special Revenue, Physical Plant and Equipment Levy.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of this existing circumstance that could significantly affect its financial health in the future:

- The District's enrollment certified to the Department of Education in September 2006 was overstated by .5 students. Future state foundation aid payments will be reduced.
- The District has experienced declining enrollment the past several years and expects that trend to continue.
- As a result of declining enrollment, property taxes will be raised to fund a greater share of regular program costs.
- The District will continue receiving the Safe Schools/Healthy Students grant. This grant will generate additional revenues and expenses for the next fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cheryl Porter, Board Secretary, Lineville-Clio Community School District, 200 W 6th St, Lineville, Iowa, 50147.

BASIC FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP(Note 4)	\$ 415,169	0	415,169
Other	173,955	0	173,955
Receivables			
Property tax:			
Delinquent	7,221	0	7,221
Succeeding year	414,947	0	414,947
Income surtax	21,519	0	21,519
Accounts	2,112	71	2,183
Accrued ISCAP interest(Note 4)	14,006	0	14,006
Due from other governments	59,049	2,746	61,795
Inventories	0	594	594
Capital assets, net of accumulated depreciation(Note 5)	953,329	1,157	954,486
TOTAL ASSETS	2,061,307	4,568	2,065,875
LIABILITIES			
Excess of warrants issued over bank balance	0	4,970	4,970
Accounts payable	24,144	0	24,144
Salaries and benefits payable	8,237	388	8,625
Interest payable	3,344	0	3,344
ISCAP warrants payable(Note 4)	416,000	0	416,000
ISCAP accrued interest payable(Note 4)	11,603	0	11,603
ISCAP unamortized premium	2,913	0	2,913
Deferred revenue:			
Succeeding year property tax	414,947	0	414,947
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	40,000	0	40,000
Bus lease payable	8,427	0	8,427
Portion due after one year:			
General obligation bonds payable	795,000	0	795,000
Bus lease payable	18,347	0	18,347
TOTAL LIABILITIES	1,742,962	5,358	1,748,320
NET ASSETS			
Invested in capital assets, net of related debt	91,555	1,157	92,712
Restricted for:			
Debt service	1,008	0	1,008
Additional teacher contract day	77	0	77
Additional salary, professional development	1,855	0	1,855
Market factor	960	0	960
Beginning administrator mentoring program	1,500	0	1,500
Capital projects	61,923	0	61,923
Management levy	16,064	0	16,064
Physical plant and equipment levy	31,767	0	31,767
Other special revenue purposes	42,968	0	42,968
Unrestricted	68,668	(1,947)	66,721
TOTAL NET ASSETS	\$ 318,345	(790)	317,555

SEE NOTES TO FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 555,333	46,784	281,496	(227,053)	0
Special instruction	40,647	0	4,354	(36,293)	0
Other instruction	144,945	37,847	0	(107,098)	0
	740,925	84,631	285,850	(370,444)	0
Support services:					
Student services	69,975	0	0	(69,975)	0
Instructional staff services	21,858	0	0	(21,858)	0
Administration services	373,429	0	0	(373,429)	0
Operation and maintenance of plant services	127,920	0	0	(127,920)	0
Transportation services	34,202	0	0	(34,202)	0
	627,384	0	0	(627,384)	0
Non-instructional programs:					
Community service operations	342,048	0	555,543	213,495	213,495
Other expenditures:					
Interest and fiscal charges	38,071	0	0	(38,071)	0
AEA flowthrough	29,350	0	29,350	0	0
Depreciation(unallocated)*	18,813	0	0	(18,813)	0
	86,234	0	29,350	(56,884)	0
Total governmental activities	1,796,591	84,631	870,743	(841,217)	0
Business-Type activities:					
Support services:					
Operation and maintenance of plant services	341	341	0	0	0
Non-instructional programs:					
Food service operations	51,522	22,312	32,625	0	3,415
Total business-type activities	51,863	22,653	32,625	0	3,415
Total	\$ 1,848,454	107,284	903,368	(841,217)	3,415
General Revenues:					
Property tax for:					
General purposes				\$ 369,370	0
Capital outlay				27,443	0
Debt service				36,854	0
Income surtax				25,230	0
Local option sales and services tax				49,855	0
Unrestricted state grants				266,493	0
Unrestricted investment earnings				21,988	68
Other general revenue				13,024	0
Total general revenues				810,257	68
Changes in net assets				(30,960)	3,483
Net assets beginning of year				349,305	(4,273)
Net assets end of year				\$ 318,345	(790)

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
ASSETS					
Cash and pooled investments:					
ISCAP(Note 4)	\$ 415,169	0	0	0	415,169
Other	42,521	41,055	395	89,984	173,955
Receivables:					
Property tax:					
Delinquent	5,751	0	613	857	7,221
Succeeding year	336,648	0	25,000	53,299	414,947
Income surtax	21,519	0	0	0	21,519
Accounts	2,112	0	0	0	2,112
Accrued ISCAP interest(Note 4)	14,006	0	0	0	14,006
Due from other governments	38,181	20,868	0	0	59,049
TOTAL ASSETS	\$ 875,907	61,923	26,008	144,140	1,107,978
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 24,102	0	0	42	24,144
Salaries and benefits payable	8,237	0	0	0	8,237
ISCAP warrants payable(Note 4)	416,000	0	0	0	416,000
ISCAP accrued interest payable(Note 4)	11,603	0	0	0	11,603
ISCAP unamortized premium	2,913	0	0	0	2,913
Deferred revenue:					
Succeeding year property tax	336,648	0	25,000	53,299	414,947
Income surtax	21,519	0	0	0	21,519
Total liabilities	821,022	0	25,000	53,341	899,363
Fund balances:					
Reserved for:					
Debt service	0	0	1,008	0	1,008
Additional teacher contract day	77	0	0	0	77
Additional salary, professional development	1,855	0	0	0	1,855
Market factor	960	0	0	0	960
Beginning administrator mentoring program	1,500	0	0	0	1,500
Unreserved:					
General	50,493	0	0	0	50,493
Capital projects	0	61,923	0	0	61,923
Management levy	0	0	0	16,064	16,064
Physical plant and equipment levy	0	0	0	31,767	31,767
Other special revenue purposes	0	0	0	42,968	42,968
Total fund balances	54,885	61,923	1,008	90,799	208,615
TOTAL LIABILITIES AND FUND BALANCES	\$ 875,907	61,923	26,008	144,140	1,107,978

SEE NOTES TO FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$	208,615
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		953,329
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period.		21,519
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(3,344)
Long-term liabilities, including general obligation bonds payable and bus lease payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(861,774)
Net assets of governmental activities (page 13)	\$	<u>318,345</u>

SEE NOTES TO FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
Revenues:					
Local sources:					
Local tax	\$ 367,574	49,855	36,854	51,447	505,730
Tuition	17,784	0	0	0	17,784
Other	65,773	859	131	41,404	108,167
State sources	504,658	0	31	43	504,732
Federal sources	626,141	0	0	0	626,141
Total revenues	1,581,930	50,714	37,016	92,894	1,762,554
Expenditures:					
Current:					
Instruction:					
Regular instruction	553,030	0	0	2,303	555,333
Special instruction	40,647	0	0	0	40,647
Other instruction	110,988	0	0	33,957	144,945
	704,665	0	0	36,260	740,925
Support services:					
Student services	69,975	0	0	0	69,975
Instructional staff services	14,754	0	0	0	14,754
Administration services	355,952	0	0	16,389	372,341
Operation and maintenance of plant services	90,484	0	0	36,785	127,269
Transportation services	53,457	0	0	2,625	56,082
	584,622	0	0	55,799	640,421
Non-instructional programs:					
Community service operations	342,048	0	0	0	342,048
Other expenditures:					
Facilities acquisitions	0	0	0	651	651
Long-term debt:					
Principal	0	0	40,000	0	40,000
Interest and fiscal charges	0	0	37,848	0	37,848
AEA flowthrough	29,350	0	0	0	29,350
	29,350	0	77,848	651	107,849
Total expenditures	1,660,685	0	77,848	92,710	1,831,243
Excess(deficiency) of revenues over(under) expenditures	(78,755)	50,714	(40,832)	184	(68,689)
Other financing sources(uses):					
Proceeds from bus lease	0	0	0	26,774	26,774
Proceeds from the disposal of property	55	0	0	0	55
Transfers in	0	0	28,256	0	28,256
Transfers out	0	(28,256)	0	0	(28,256)
Total other financing sources(uses)	55	(28,256)	28,256	26,774	26,829
Net change in fund balances	(78,700)	22,458	(12,576)	26,958	(41,860)
Fund balance beginning of year	133,585	39,465	13,584	63,841	250,475
Fund balance end of year	\$ 54,885	61,923	1,008	90,799	208,615

SEE NOTES TO FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ (41,860)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 36,785	
Depreciation expense	<u>(42,368)</u>	(5,583)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.	3,022
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(223)

Proceeds from issuing long-term liabilities provide current financial resources to government funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issuances, as follows:

Issued	\$ (26,774)	
Repaid	<u>40,000</u>	13,226

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Compensated absences	<u>458</u>
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Changes in net assets of governmental activities (page 14)	<u><u>\$ (30,960)</u></u>
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SEE NOTES TO FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	School Nutrition
Assets	
Accounts receivable	\$ 71
Due from other governments	2,746
Inventories	594
Capital assets, net of accumulated depreciation(Note 5)	1,157
Total assets	4,568
Liabilities	
Excess of warrants issued over bank balance	4,970
Salaries and benefits payable	388
Total liabilities	5,358
Net Assets	
Invested in capital assets, net of related debt	1,157
Unrestricted	(1,947)
Total net assets	\$ (790)

SEE NOTES TO FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ 22,653
Total operating revenues	<u>22,653</u>
Operating expenses:	
Support services:	
Operation and maintenance of plant services	
Services	<u>341</u>
Non-instructional programs:	
Food service operations:	
Salaries	19,455
Benefits	7,330
Services	1,275
Supplies	23,243
Depreciation	219
	<u>51,522</u>
Total operating expenses	<u>51,863</u>
Operating loss	<u>(29,210)</u>
Non-operating revenues:	
State sources	611
Federal sources	32,014
Interest income	68
Total non-operating revenues	<u>32,693</u>
Change in net assets	3,483
Net assets beginning of year	<u>(4,273)</u>
Net assets end of year	<u>\$ (790)</u>

SEE NOTES TO FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 22,086
Cash payments to employees for services	(30,700)
Cash payments to suppliers for goods or services	(20,572)
Net cash used in operating activities	<u>(29,186)</u>
Cash flows from non-capital financing activities:	
State grants received	642
Federal grants received	24,963
Net cash provided by non-capital financing activities	<u>25,605</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(920)
Net cash used in capital and related financing activities	<u>(920)</u>
Cash flows from investing activities:	
Interest on investments	68
Net cash provided by investing activities	<u>68</u>
Net decrease in cash and cash equivalents	(4,433)
Cash and cash equivalents at beginning of year	<u>(537)</u>
Cash and cash equivalents at end of year	<u>\$ (4,970)</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (29,210)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	4,305
Depreciation	219
Increase in inventories	(18)
Increase in accounts receivable	(71)
Decrease in salaries and benefits payable	(3,915)
Decrease in unearned revenue	(496)
Net cash used in operating activities	<u>\$ (29,186)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ (4,970)</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received
Federal commodities valued at \$4,305.
SEE NOTES TO FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Lineville-Clio Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Lineville and Clio, Iowa, and the predominate agricultural territory in Wayne and Decatur Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Lineville-Clio Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Lineville-Clio Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wayne and Decatur Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary funds:

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and

reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Buildings	\$ 5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable- Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax

receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the support services function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in bank at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the district had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	<u>\$ 117,989</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds(funds expected to be expended in

the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 28,256</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	9,916	0	8,118
2006-07B	1/26/07	1/25/08	178,544	4,019	179,000	3,425
2007-08A	6/27/08	6/28/07	236,625	71	237,000	60
Total			<u>\$ 415,169</u>	<u>14,006</u>	<u>416,000</u>	<u>11,603</u>

The district pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the district must repay the outstanding withdrawal from its General Fund receipts. In addition, the district must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07B	\$ 0	10,000	10,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.500%	4.772%
2007-08A	4.500%	5.676%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 940,645	0	0	940,645
Machinery and equipment	127,100	36,785	0	163,885
Total capital assets being depreciated	1,067,745	36,785	0	1,104,530
Less accumulated depreciation for:				
Buildings	37,626	18,813	0	56,439
Machinery and equipment	71,207	23,555	0	94,762
Total accumulated depreciation	108,833	42,368	0	151,201
Governmental activities capital assets, net	\$ 958,912	(5,583)	0	953,329
Business-type activities:				
Machinery and equipment	\$ 2,402	920	0	3,322
Less accumulated depreciation	1,946	219	0	2,165
Business-type activities capital assets, net	\$ 456	701	0	1,157

Depreciation expense was charged by the District as follows:

Governmental activities:

Support services:

Student services	\$ 7,104
Administration	1,546
Transportation	14,905
Administration	23,555
Unallocated depreciation	18,813

Total governmental activities depreciation expense \$ 42,368

Business-type activities:

Food services	\$ 219
Total business-type activities depreciation expense	<u>\$ 219</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 875,000	0	40,000	835,000	40,000
Bus lease	0	26,774	0	26,774	8,427
Compensated absences	458	0	458	0	0
Total	<u>\$ 875,458</u>	<u>26,774</u>	<u>40,458</u>	<u>861,774</u>	<u>48,427</u>

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of June 1, 2003		
		Principal	Interest	Total
2008	3.50 %	\$ 40,000	36,248	76,248
2009	4.00	40,000	34,847	74,847
2010	4.00	40,000	33,248	73,248
2011	4.00	45,000	31,647	76,647
2012	4.00	45,000	29,847	74,847
2013-2017	4.00-4.40	250,000	120,538	370,538
2018-2022	4.50-4.75	305,000	60,823	365,823
2023	4.80	70,000	3,360	73,360
Total		<u>\$ 835,000</u>	<u>350,558</u>	<u>1,185,558</u>

Bus Lease Payable

During the year ended June 30, 2007, the District entered into an agreement with Baystone Financial Group for the lease purchase of

a school bus. Details of the District's June 30, 2007 bus lease indebtedness is as follows:

Year Ending June 30,	Bus Lease of June 7, 2007			
	Interest Rates	Principal	Interest	Total
2008	5.63 %	\$ 8,427	1,551	9,978
2009	5.63	8,915	1,063	9,978
2010	5.63	9,432	546	9,978
Total		\$ 26,774	3,160	29,934

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$51,436, \$49,588 and \$70,136 respectively, equal to the required contributions for each year.

(8) Risk Management

Lineville-Clio Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$29,350 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Deficit Net Assets

The School Nutrition Fund had deficit net assets of \$790 at June 30, 2007.

(11) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the support support function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual	Actual			Variance -
						Positive
						(Negative)
Revenues:						
Local sources	\$ 631,681	22,721	654,402	633,072	633,072	21,330
State sources	504,732	611	505,343	519,684	519,684	(14,341)
Federal sources	626,141	32,014	658,155	948,700	948,700	(290,545)
Total revenues	1,762,554	55,346	1,817,900	2,101,456	2,101,456	(283,556)
Expenditures:						
Instruction	740,925	0	740,925	945,500	945,500	204,575
Support services	640,421	341	640,762	339,350	339,350	(301,412)
Non-instructional programs	342,048	51,522	393,570	820,000	820,000	426,430
Other expenditures	107,849	0	107,849	151,979	151,979	44,130
Total expenditures	1,831,243	51,863	1,883,106	2,256,829	2,256,829	373,723
Excess(deficiency) of revenues over(under) expenditures	(68,689)	3,483	(65,206)	(155,373)	(155,373)	(90,167)
Other financing sources, net	26,829	0	26,829	0	0	(26,829)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(41,860)	3,483	(38,377)	(155,373)	(155,373)	(116,996)
Balance beginning of year	250,475	(4,273)	246,202	53,724	53,724	192,478
Balance end of year	\$ 208,615	(790)	207,825	(101,649)	(101,649)	309,474

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2007

	Nonmajor Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
Assets				
Cash and pooled investments	\$ 15,706	31,767	42,511	89,984
Receivables:				
Property tax:				
Current year delinquent	400	0	457	857
Succeeding year	25,000	0	28,299	53,299
Total assets	\$ 41,106	31,767	71,267	144,140
Liabilities and fund balances:				
Liabilities:				
Accounts payable	\$ 42	0	0	42
Deferred revenue:				
Succeeding year property tax	25,000	0	28,299	53,299
Total liabilities	25,042	0	28,299	53,341
Fund balances:				
Unreserved:				
Undesignated	16,064	31,767	42,968	90,799
Total fund balances	16,064	31,767	42,968	90,799
Total liabilities and fund balances	\$ 41,106	31,767	71,267	144,140

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Nonmajor Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
Revenues:				
Local sources:				
Local tax	\$ 24,004	0	27,443	51,447
Other	2,166	37,969	1,269	41,404
State sources	20	0	23	43
Total revenues	26,190	37,969	28,735	92,894
Expenditures:				
Current:				
Instruction:				
Regular instruction	2,303	0	0	2,303
Other instruction	0	33,957	0	33,957
Support services:				
Administration services	16,389	0	0	16,389
Operation and maintenance of plant services	0	0	36,785	36,785
Student transportation	2,625	0	0	2,625
Other expenditures:				
Facilities acquisitions	0	0	651	651
Total expenditures	21,317	33,957	37,436	92,710
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,873	4,012	(8,701)	184
OTHER FINANCING SOURCES:				
Proceeds from bus lease	0	0	26,774	26,774
Net change in fund balances	4,873	4,012	18,073	26,958
Fund balance beginning of year	11,191	27,755	24,895	63,841
Fund balance end of year	\$ 16,064	31,767	42,968	90,799

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Cheerleading	\$ 122	2	0	124
SES	155	3	0	158
Drama	450	445	425	470
FCCLA	1,248	9	0	1,257
Athletics	6,675	6,465	4,783	8,357
Miscellaneous	1,406	929	742	1,593
Playground	2,165	88	0	2,253
Interest	866	4	0	870
Flower Fund	93	205	290	8
Student Council	226	180	138	268
Nutrition	3,039	26	0	3,065
National Honors Society	197	1,959	1,536	620
Annuals	4,273	2,987	4,625	2,635
Field Trip	874	(234)	26	614
Class of 2005	423	2	425	0
Class of 2006	247	2	118	131
Class of 2007	2,013	7,527	9,340	200
Class of 2008	534	7,838	5,841	2,531
Class of 2009	1,057	990	184	1,863
Class of 2010	163	2,749	1,748	1,164
Class of 2011	73	191	32	232
Class of 2012	0	77	0	77
Art Club	0	56	0	56
High School Funds	0	1,731	1,428	303
Elementary School Funds	1,456	3,738	2,276	2,918
Total	\$ 27,755	37,969	33,957	31,767

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	505,730	510,460	419,963	363,171
Tuition		17,784	28,821	38,012	40,703
Other		108,167	292,647	87,589	86,518
Intermediate sources		0	400	1,800	0
State sources		504,732	495,481	528,347	480,380
Federal sources		626,141	768,058	74,524	79,929
Total	\$	1,762,554	2,095,867	1,150,235	1,050,701
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	555,333	474,169	532,941	543,880
Special instruction		40,647	83,336	141,501	67,827
Other instruction		144,945	161,616	141,867	192,309
Support services:					
Student services		69,975	55,689	13,936	13,574
Instructional staff services		14,754	13,030	2,784	10,236
Administration services		372,341	497,234	144,375	121,110
Operation and maintenance of plant services		127,269	117,711	96,930	141,155
Transportation services		56,082	33,019	20,156	25,160
Other support services		0	0	127	19,360
Non-instructional programs		342,048	395,183	0	0
Other expenditures:					
Facilities acquisitions		651	0	971,552	60,022
Long-term debt:					
Principal		40,000	35,000	35,000	0
Interest and other charges		37,848	38,897	40,898	0
AEA flow-through		29,350	28,792	28,043	29,089
Total	\$	1,831,243	1,933,676	2,170,110	1,223,722

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - NATIONAL PROGRAMS	84.184	FY 07	\$ 555,543
RURAL EDUCATION ACHIEVEMENT PROGRAM (REAP)	84.358	FY 07	13,687
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION	10.550	FY 07	4,305
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	20,467
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	7,242
			27,709
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	3705-G	19,321
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 07	508
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 07	141
READING FIRST STATE GRANTS	84.357	FY 07	30,227
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 07	6,201
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 07	273
CHARITON COMMUNITY SCHOOL DISTRICT:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 07	1,396

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED):			
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO			
STATES (PART B)	84.027	FY 07	<u>4,354</u>
TOTAL			<u>\$ 663,665</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Lineville-Clio Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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Independent Auditor's Report on Internal Control over financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Lineville-Clio Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lineville-Clio Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 4, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lineville-Clio Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Lineville-Clio Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lineville-Clio Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lineville-Clio Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Lineville-Clio Community School District's financial statements that is more than inconsequential will not be prevented or detected by Lineville-Clio Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Lineville-Clio Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lineville-Clio Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lineville-Clio Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Lineville-Clio Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lineville-Clio Community School District and other parties to whom Lineville-Clio Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Lineville-Clio Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 4, 2008

NOLTE, CORNMAN & JOHNSON P.C.
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Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Lineville-Clio Community School District

Compliance

We have audited the compliance of Lineville-Clio Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Lineville-Clio Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Lineville-Clio Community School District's management. Our responsibility is to express an opinion on Lineville-Clio Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lineville-Clio Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lineville-Clio Community School District's compliance with those requirements.

In our opinion, Lineville-Clio Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Lineville-Clio Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Lineville-Clio Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lineville-Clio Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

Lineville-Clio Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Lineville-Clio Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lineville-Clio Community School District and other parties to whom Lineville-Clio Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



NOLTE, CORNMAN & JOHNSON, P.C.

March 4, 2008

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Individual
 - CFDA Number 84.184 - Safe and Drug-Free Schools and Communities - National Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lineville-Clio Community School District did not qualify as a low-risk auditee.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- II-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - The District will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- II-B-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

There are Interest accounts. These accounts should be allocated among the Student Activity Funds that earned the interest. This allocation should be done at least annually. Interest earned should be distributed to individual accounts within the Student Activity Fund.

There is a Playground account recorded in the Student Activity Fund. This account should be transferred into the Physical Plant and Equipment Fund where allowable expenditures can be made.

There is a Flower Fund and a Nutrition activity account. These receipts and expenditures appear to be more instructional in nature; therefore, they should be moved to the General Fund.

There is a Miscellaneous activity account. This account does not appear to be a student run organization account and should be allocated to more appropriately identified Student Activity Funds or transferred to the General Fund.

There is a Class of 2005 activity account. The class donated money to Make a Wish Foundation. Schools may not make donations to non-profit organizations unless the money is specifically raised for that purpose.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. The District should not donate money unless raised for that purpose.

Response - The Student Activity Fund Accounts will be reviewed, corrected and/or transferred if appropriate. No student fund raising activity funds will be donated to any non-profit organization unless the fund raising activities are specifically designated for that organization.

Conclusion - Response accepted.

- II-C-07 Board Policies - We noted during our audit that the District is currently reviewing the board policy book. The District is required to have policies in the policy book updated every five years. Policies that were not available at the time of audit include a Disposal of Assets and Capital Asset Capitalization policies.

Recommendation - The District needs to review the board policy book for policies that have not been reviewed within the past five years. The District may need to contact the Department of Education or IASB for guidance on policies not available. The District needs to review the board policies and update the policy book.

Response - The Board has set a regular Board Policy review plan and is currently review a section of the Board Policy Manual at each regular Board Meeting. Policies for the Disposal of Assets and Capital Asset Capitalization will be obtained and adopted.

Conclusion - Response accepted.

- II-D-07 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st. The District should submit the outstanding checks to the State Treasurer as unclaimed property. The District should review if checks should be voided or rewritten.

Response - The outstanding checks have been taken care of.

Conclusion - Response accepted.

- II-E-07 Free and Reduced Lunch Applications - We noted during our audit that three of the free and reduced lunch applications in our testing were improperly filed.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District should contact the Department of Education to correct the necessary reports.

Response - We will review the procedures in place to ensure applications are properly filed in the future. The District will also contact the Department of Education to correct the necessary reports.

Conclusion - Response accepted.

- II-F-07 Payroll Procedures - We noted during our audit that the District is not filing payroll reports timely. In addition, the payroll taxes are not deposited timely. Both of these create penalties for the District.

Recommendation - Extreme care should be taken when dealing with payroll to ensure taxes are paid timely and quarterly reports are filed timely as well. The District should review policies and procedures in place.

Response - We will review the procedures in place and make sure the reports and taxes are submitted in a timely manner.

Conclusion - Response accepted.

- II-G-07 Purchase Orders - We noted during our audit that the disbursements from the Student Activity Fund didn't utilize a purchase order.

Recommendation - Better internal control is achieved when pre-numbered purchase orders are used and the sequence is monitored. The District should review the purchase order system in place. Purchase orders provide approval to order, therefore, pre-numbered purchase orders should be approved by the administrator before the ordering of supplies takes place.

Response - Purchase orders will be used for all expenditures.

Conclusion - Response accepted.

- II-H-07 Cash Given to Students - We noted during our audit that seven students going on a senior trip received \$300 in cash each. According to a December 12, 1967 Iowa Supreme Court Ruling the Student Activity funds are not the property of the individuals and should not be distributed to individuals. The senior class could use the funds for the trip expenses, but should not be distributed to the individuals.

Recommendation - The District should refrain from this practice in the future.

Response - No cash will be distributed to individual students.

Conclusion - Response accepted.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 84.184 - Safe and Drug-Free Schools and Communities - National Program
Federal Award Year: 2007
U.S. Department of Education

III-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

III-B-07 Paying from Copies of Invoices - We noted during our audit that the District is reimbursing federal grant expenses to other entities that are submitting copies of invoices.

Recommendation - The District should review its control procedures to obtain the original invoices as source documentation to support payments.

Response - We will review procedures in place and pay from original invoices in the future.

Conclusion - Response accepted.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-07 Certified Budget - District expenditures for the year ended June 30, 2007 exceeded the amount budgeted in the support services function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. However, we did note two individuals who received a travel allowance and cell phone allowance which were not included on the W-2.

Recommendation - The District should report travel and cell phone allowances with the payroll subjecting it to payroll taxes.

Response - For those employees whose contract include a specific set amount for cell phone and/or travel allowance, that amount will be paid through payroll.

Conclusion - Response accepted.

IV-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Deanna Bremerke, Spouse of David Bremerke, Board President	Mowing Services	\$3,518

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouse of the Board President do not appear to represent a conflict of interest.

IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will provide the minutes within the time period required; however, we are unable to control the publishing dates.

Conclusion - Response accepted.

IV-G-07 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students in line 1 was overstated by 1.5 students. In addition, the open enrollment in line 2 was understated by 1 student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-07 Financial Condition - The District had deficit net assets of \$790 in the School Nutrition Fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We will monitor this fund and investigate any available options to eliminate this deficit.

Conclusion - Response accepted.